



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Remarks of Sen. Chuck Grassley, Chairman, Committee on Finance
Before The Tax Council
Monday, April 23, 2001

As I'm sure you have observed, the primary focus of the President's tax proposal is tax relief for individual taxpayers. As individual taxpayers, most of you should be pleased with the individual tax initiatives the Administration has put forth.

As business taxpayers, my guess is that most of you are wondering, what if anything, will take place this year.

Much of that will be determined by the Budget Resolution, and whether the revised CBO projections this summer will provide us with additional surplus funds.

At the present time, the House has passed a \$1.6 Trillion tax cut resolution. The Senate version stands at a \$1.2 Trillion cut over 10 years, accompanied by another \$85 billion in immediate economic stimulus that will come out of the Fiscal Year 2001 surplus.

We hope to have a Final Budget Resolution finished and a tax cut passed by Memorial Day. We may have an opportunity to address additional tax issues later in the summer, after the CBO estimates come out.

If, however, the Final Resolution number is too small to take care of all the individual tax issues, there may be pressure to use the additional CBO surplus number for the remaining individual issues or further debt reduction.

Today, I would like to walk through some of the major corporate tax issues that we are considering, and give you an assessment of their current state of play.

Last Fall, the Finance Committee unanimously reported out a retirement security improvement package.

A few weeks ago, Senator Baucus and I introduced a bill similar to last year's Finance Committee package.

This package contains a combination of business and individual tax incentives for retirement security.

Clearly, most of your companies will benefit because you will be able to offer more tax-favored retirement benefits to your employees. We hope you will support our efforts.

A corporate tax issue that is awaiting congressional action is depreciation. In recent years, Congress has deferred action on several depreciation proposals because the Department of Treasury was working on a comprehensive depreciation study.

The Treasury study was finally released last summer and it has sparked renewed interest in the depreciation issue.

I know that many of you are disappointed that the study did not include concrete suggestions for modernizing the outdated depreciation provisions in our tax code.

The study did acknowledge that there are inequities and unnecessary complexities in the current system, and that many of today's industries and manufacturing techniques did not exist at the time the rules were written.

I also think that as we review the depreciation methods, we should look at your INDOPCO concerns as well.

The Tax Council's Policy Institute has been at the forefront of the issue, and we look forward to working with your Institute on this issue.

You are all well aware that the climate at the moment is focused on individual tax issues, not business tax issues. The Administration has clearly set this tone for its current tax legislative initiative.

It is, therefore, no small feat that a permanent Research & Experimentation tax credit made it into the President's tax proposal. This provision is the only corporate tax provision in the President's tax plan.

The fact that the R&E credit has gotten this far is a testament to how hard many of you have worked to make this provision a priority.

It is very likely that the Finance Committee will address electronic commerce issues this year. The present Federal moratorium on the states' ability to tax Internet transactions expires this Fall.

The challenging issues involved in the interstate and international aspects of Internet transactions should be part of the Committee's upcoming slate of projects.

The international tax area as a whole is ripe for attention. I believe that it is important for the Finance Committee to continue its work in the international tax area in order for the United States to remain competitive in the global economy.

A very important international provision will be the Active Financing Exception, which

expires this year.

The President has called for a one-year extension of this provision. Bills have been introduced in both the House and Senate to make this provision permanent.

The Active Financing provision will probably be dealt with in an extender package. There are several other important extender provisions that are expiring, such as the Welfare-to-Work Credit, the Work Opportunity Credit, and the Exclusion for Employer Provided Educational Relief, just to name a few.

In December 2000, the Treasury Department released its long-awaited study on Subpart F. As you know, there are many problems with the current Subpart F rules. Now that the Treasury has completed its study, the Finance Committee should initiate a review of possible Subpart F reforms.

Congress should also continue in its international simplification efforts. We passed several simplification provisions in the 1999 Taxpayer Refund and Relief Act. We understand that interest allocation and foreign tax credit simplification are high priorities for the business community.

Senator Hatch and Senator Baucus are presently working on their international simplification bill, and we look forward to receiving that bill for further consideration.

As you may know, the Finance Committee will hold a tax simplification hearing this Thursday, April 26th. The hearing will feature the Congressionally mandated study on simplification from the Joint Committee on Taxation.

Recommendations for simplification of the international tax and corporate areas will be part of this hearing.

Testimony may cover the INDOPCO issue, the Subpart F and Foreign Tax Credit Rules, Collapsible Corporations, and harmonization of the various attribution rules scattered throughout the Code.

This should be a very productive hearing. We will hear from the Joint Tax Committee, the Tax Executives Institute, the National Association of Enrolled Agents, and the Tax Sections of the American Bar Association and the American Institute of Certified Public Accountants.

Be assured that I intend to address your concerns regarding simplification issues. It is time to improve the clarity of our tax code.

Many of you have been closely following last year's legislation repealing the foreign sales corporation provisions.

It appears the WTO will not issue a final decision until later this summer. Be assured, that the Finance Committee is following the WTO case closely and is prepared to respond if necessary.

Now, as supportive as I am of your tax concerns, I must also be quite frank with you that I do not support your tax shelter activities.

The Finance Committee is continuing to work on this issue, in careful coordination with Treasury and the IRS Office of Tax Shelter Analysis.

We are studying ways to more effectively address tax shelter abuses, without interfering with legitimate business transactions. We are continuing to develop our proposal toward that goal.

With that, I would like to close by assuring you that I am committed to making our tax code fair for both individuals and companies alike. I look forward to working with you to achieve this goal.